

The report was prepared by Dom Maklerski BDM at the request of the WSE as part of the Exchange's Analytical Coverage Support Programme

			2020	2021	
Price [PLN]	10,1	P/E	463,2	-	<b>Analyst:</b> Krzysztof Tkocz krzysztof.tkocz@bdm.pl tel.: (+48) 516 086 705
MC [mln PLN]	26,9	EV/EBITDA	-	-	
		EV/EBIT	-	-	
		P/BV	3,7	2,9	

**Last recommendation BDM: HOLD with target price 9,1 PLN/share (2022/10/28) [LINK](#)**

**BDM Comment:** The company's results for Q3'22 at the level of EBIT profit are below our expectations, therefore we perceive them negatively. At the level of revenues, CFG generated PLN 1.7 million in the discussed period (-17.1% y/y), of which PLN 0.8 million from sales revenues (a decrease of 22.6% y/y, despite the premiere of ACS" in Q2'22, however, we think that it may be related to the lack of payments for the production of the game "Stargate Timekeepers") vs. PLN 1.0m our expectations. This position was significantly boosted by the change in the state of products, which amounted to nearly PLN 0.9 million and turned out to be significantly higher than our forecasts. In the period under review, operating costs fell by 24.2% y/y and increased by 4.8% q/q to PLN 1.5m. The largest cost, as usual, is associated with game production - the costs of external services increased by 21.8% y/y and 46.7% q/q to PLN 1.2 million, and salaries decreased y/y by approx. 66.1% and 49,7% q/q to PLN 0.3m. Despite the company focused on maximizing the efficiency of the production team and optimizing production, it did not reduce the most important costs **and they are significantly above our expectations, which we perceive negatively.** At the EBITDA level, the company generated a profit of PLN 0.2 million (+237.8% y/y), EBIT amounted to PLN 0.2 million (+355.4% y/y). In Q3'22, the company generated a PLN 1.0m financial balance due to the profit from the disposal of financial assets (the effect of the agreement with PLW regarding the game "Gnomepunk"), which translated into a net profit of PLN 1.1m (vs +294.1% y/y). In Q3'22, net cash flows from operating activities amounted to PLN -0.3 million (of which PLN -1.0 million related to investing activities). At the end of September 2022, the company had PLN 0.8m in cash, i.e. PLN 0.1m less q/q. The company continues to focus on maximizing the efficiency of the production team. Production stages and team management are being optimised.

**Q3'22 results [mln PLN]**

	Q3'21	Q3'22	change y/y	Q3'22F BDM	dev.
Sales	2,1	1,7	-17,1%	1,2	38,0%
Gross profit	0,0	0,2	353,9%	0,5	-65,9%
Other op.income/expenses	0,0	0,0	-254,1%	0,0	-98,0%
EBITDA	0,1	0,2	237,8%	0,5	-66,6%
EBIT	0,0	0,2	355,4%	0,5	-66,9%
Financial income/expense, net	0,0	1,0	-	0,0	-
Profit before tax	0,2	1,2	407,5%	0,5	137,6%
Net profit	0,3	1,1	294,1%	0,5	138,2%
Net profit adj.	0,3	0,1	-68,6%	0,5	-81,0%
Gross margin	1,9%	10,2%		41,3%	
EBITDA margin	2,6%	10,5%		43,3%	
EBIT margin	1,9%	10,2%		42,4%	
Net margin adj.	13,9%	65,9%		38,2%	
Net margin	13,9%	5,3%		38,2%	

Source: BDM S.A., company

- In Q3'22, the company generated PLN 1.7 million in revenues (-17.1% y/y), of which PLN 0.8 million from sales (-22.4% y/y, -34.6% q/q), the second part, i.e. PLN 0.9m, was due to a change in the product state (-11.0% y/y vs. -PLN 0.1m in Q2'22).
- In the period under review, operating expenses decreased by 24.2% y/y and increased q/q by 4.8% to PLN 1.5 million. The largest cost, as usual, is associated with game production - the costs of external services increased by 21.8% y/y and 46.7% q/q to PLN 1.2 million, and salaries decreased y/y by approx. 66.1% and 49,7 q/q by PLN 0.3m.
- At the EBITDA level, the company generated a profit of PLN 0.2 million (+237.8% y/y), EBIT amounted to PLN 0.2 million (+355.4% y/y).
- In Q3'22, thanks to the profit on the sale of financial assets, the company generated a PLN 1.0 million financial balance, which translated into a net profit of PLN 1.1 million (vs +294.1% y/y).
- Over the past quarter, "products and semi-finished products" decreased q/q by PLN 1.5 million to PLN 3.2 million, and "finished products" decreased by PLN 0.1 million to PLN 1.7 million.
- In 3Q'22, net cash flows from operating activities amounted to PLN -0.3 million (of which PLN -1.0 million related to investing activities). At the end of September 2022, the company had PLN 0.8m in cash, i.e. PLN 0.1m less q/q.
- At the end of September 2022, in CreativeForge Games, there were no people employed on the basis of a full-time employment contract, while CFG employed 11 people on the basis of civil law contracts and one person from the Management Board employed on the basis of an employment contract. In total, in the group, converted into full-time jobs, no persons were employed on the basis of an employment contract, 3 persons were employed on the basis of appointments and 37 persons on the basis of civil law contracts.

- On September 5, 2022, Annex No. 2 was signed to the publishing agreement of July 1, 2021 regarding the game entitled Gnomepunk, under which PlayWay became the new publisher of this title. CFG decided to transfer the role of the publisher to the above-mentioned game due to the need to focus its resources on other productions that are more important from the company's point of view. PlayWay covered all the costs incurred by CFG so far.
- Deadwater Sallon - the game was introduced to players at the beginning of last quarter. This title was received with good reviews, and the developer is already working on another production, for which CFG will also be the publisher.
- Handyman Corporation - 3Q'22 is intensive work on the release of the game, which will have its premiere soon, i.e. on November 30, 2022. CFG is very pleased with the effects of the above-mentioned.
- My Hotel - the game is already in full production. Bugs and performance-degrading elements are still being removed on an ongoing basis. Production is not at risk. Analyzes are also underway examining the direction in which the game's marketing should go, and an appropriate release window is being sought to maximize premiere profits.
- In addition to the above-mentioned games, titles such as Blacksmith Simulator, Beer Factory, Colonize, Black Gold and House Flipper City, Builders of Greece are in development. Each of these games is already at an advanced stage of production and each of them has great potential for success.
- The company continues to focus on maximizing the efficiency of the production team. Production stages and team management are being optimised. Appropriate procedures have been created to identify potential bugs related to adding new features and mechanics to games more quickly, while at the same time the bug reporting and identification system has been improved, and thus, faster removal of irregularities by the testing teams. CFG already sees that the applied improvements have a positive impact on development activities.

Gra	Planowany termin premiery gry
Colonize	IIQ 2023
House Flipper City	IVQ 2023
Stargate: Timekeepers (nazywana wcześniej Projekt X)	2023
Projekt Y (współpraca z Siltherine Software UK LTD)	2023
Handyman Corporation	IVQ 2022/IIQ 2023
My Hotel	IVQ 2022/IIQ 2023
Black Gold	IIQ 2023
Orc Warchieff	2023
Builders of Greece	IVQ 2023
Gimle	2024
Monsters Domain	2023
Once upon a Time... Life	2023
Builders of Egypt	TBA
City of Atlantis	2023
Beer Factory	IQ 2023

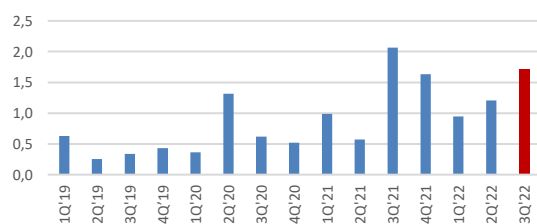
Źródło: company

#### Results in previous quarters [mln PLN]

Results Q [mln PLN]	1Q'19	2Q'19	3Q'19	4Q'19	1Q'20	2Q'20	3Q'20	4Q'20	1Q'21	2Q'21	3Q'21	4Q'21	1Q'22	2Q'22	3Q'22	2018	2019	2020	2021
Sales	0,6	0,3	0,3	0,4	0,4	1,3	0,6	0,5	1,0	0,6	2,1	1,6	0,9	1,2	1,7	3,7	1,6	2,8	5,3
Gross profit	-0,1	0,0	0,0	0,1	-0,1	0,5	-0,1	-0,5	-0,2	0,9	0,0	-0,4	-0,2	-0,3	0,2	-0,5	-0,1	-0,2	0,3
Other op.income/expenses	0,0	0,0	0,0	0,0	0,0	0,0	0,0	-1,0	0,0	0,0	-0,2	0,0	0,0	0,0	0,0	-0,2	0,0	-1,0	-0,2
EBITDA	-0,1	0,0	0,0	0,0	-0,1	0,5	-0,1	-1,5	-0,2	-0,9	0,1	-0,4	-0,2	-0,2	0,2	-0,6	-0,1	-1,2	-1,5
EBIT	-0,1	0,0	0,0	0,0	-0,1	0,5	-0,1	-1,5	-0,2	-0,9	0,0	-0,4	-0,2	-0,2	0,2	-0,7	-0,2	-1,2	-1,5
Profit before tax	-0,1	-0,1	0,0	0,0	-0,1	0,5	0,3	-0,7	-0,2	-0,5	0,2	-0,4	-0,1	-0,3	1,2	-0,9	-0,2	0,0	-1,0
Net profit	-0,1	-0,1	0,0	0,0	-0,1	0,5	0,3	-0,6	-0,2	-0,4	0,3	-0,3	-0,1	-0,3	1,1	-0,9	-0,2	0,1	-0,5
Sales change y/y	-	-	-	-	-42,2%	416,1%	84,0%	20,6%	172,4%	-56,4%	234,6%	213,6%	-5,7%	110,5%	-17,1%	-	-55,7%	70,6%	86,8%
Net profit change y/y	-	-	-	-	-	-	-	-	-	-	-	-	-	-	294,1%	-	-	-	-
Gross margin	-17,4%	-18,4%	-10,8%	17,3%	-34,2%	40,8%	-15,1%	-100,4%	-21,2%	160,6%	1,9%	-25,9%	-18,0%	-21,7%	10,2%	-13,4%	-7,1%	-7,3%	6,2%
EBITDA margin	-13,6%	8,4%	-2,2%	-2,7%	-32,9%	41,5%	-13,7%	-288,2%	-19,6%	-158,8%	2,6%	-25,6%	-16,9%	-19,4%	10,5%	-15,1%	-5,1%	-41,1%	-27,9%
EBIT margin	-16,7%	0,8%	-8,9%	-4,0%	-35,7%	40,8%	-15,1%	-290,7%	-21,4%	-160,7%	1,9%	-26,0%	-18,1%	-20,5%	10,2%	-18,0%	-9,1%	-42,6%	-28,9%
Net margin	-8,2%	-45,9%	-2,8%	3,1%	-35,0%	39,6%	48,8%	-122,2%	-17,5%	-62,4%	13,9%	-18,7%	-14,5%	-23,3%	65,9%	-23,4%	-10,0%	2,1%	-10,5%

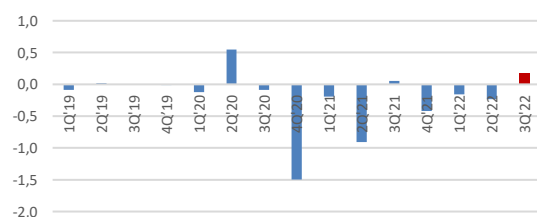
Źródło: BDM S.A., company

#### Sales [mln PLN]



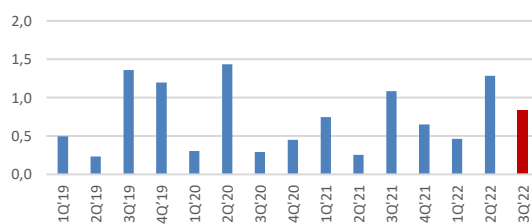
Źródło: Dom Maklerski BDM S.A., company

#### EBITDA [mln PLN]



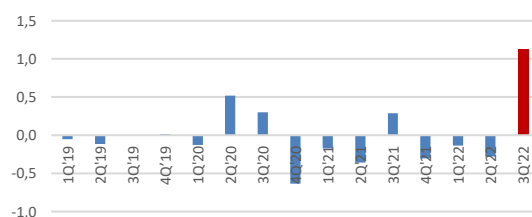
Źródło: Dom Maklerski BDM S.A., company

#### Revenue from the sale of products [mln PLN]



Źródło: Dom Maklerski BDM S.A., company

#### Net profit [mln PLN]



Źródło: Dom Maklerski BDM S.A., company

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**Explanations of terminology:**

EBIT - earnings before interest and tax

EBITDA – earnings before interest, taxes, depreciation, and amortization

Net debt – interest bearing debt minus cash and equivalents

WACC - weighted average cost of capital

CAGR - cumulative average annual growth

EPS - earnings per share

DPS - dividend per share

CEPS - net profit plus depreciation per share

EV – market capitalization plus interest bearing debt minus cash and equivalents

EV/S – market capitalization / sales

EV/EBITDA – EV / sales

P/EBIT – market capitalization / EBIT

MC/S – market capitalization / sales

P/E – market capitalization / net profit

P/BV – market capitalization / book value

P/CE - market capitalization / net profit plus depreciation

ROE – net profit / equity

ROA - net income / assets

Gross margin - gross profit on sales / sales

EBITDA margin – EBITDA / sales

EBIT margin – EBIT / sales

Net margin – net profit / sales

**Explanation of ratings:**

Buy – we believe that the security will reach the target price in the recommended period, which significantly exceeds the current market price (at least + 15%);

Accumulate – we believe that the security will reach the target price in the recommended period, which exceeds the current market price (in the range of +5 to + 14.99%);

Hold – we believe that a security in the recommended period will fluctuate around the target price, which is close to the current market price (in the range from -4.99% to + 4.99%);

Reduce – we believe that the security will reach the target price in the recommended period, which is lower than the market price (range of decline from 5% to 14.99%);

Sell – we believe that a security in the recommended period will reach the target price, which is significantly lower than the market price (suggested erosion of the value exceeds 15%).

Target price – the theoretical price which, in our opinion, should reach a security in the recommended period; This price is the result of the company's value (eg based on DCF, comparative and other valuations), market conditions and the industry as well as other factors subjectively considered by the analyst.

Recommendations made by BDM are binding for 12 months from the issue date or until the target level is reached, unless they are updated during this period of time.

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**Ratings and price targets history:**

rating	price target	previous rating	previous target price	report date	report date (hour)	price	WIG
<b>Hold</b>	<b>9,1</b>	<b>Buy</b>	<b>33,7</b>	<b>28.10.2022*</b>	<b>11:30 CEST</b>	<b>9,18</b>	<b>48 970</b>
Buy	33,7	buy	39,0	13.04.2022*	07:00 CEST	29,0	63 863
Buy	39,0	---	---	17.08.2021*	08:00 CEST	33,5	68 812

\* The report was prepared by Dom Maklerski BDM at the request of the WSE as part of the Exchange's Analytical Support Programme.

**Distribution of BDM's recommendations in Q4'22\*:**

, distribution of BDM's recommendations for the companies which BDM has supplied with investment banking services within the last 12 months

	number	%	number	%
Buy	5	50%	1	100%
Accumulate	2	20%	0	0%
Hold	2	20%	0	0%
Reduce	0	0%	0	0%
Sell	1	10%	0	0%

\* detailed list of all analytical reports (recommendations) published by BDM during the last 12 months and information on the numbers of issuers to which BDM has supplied services of investment firms set out in Sections A and B of Annex I to Directive 2014/65/EU is included in a cyclical "Monthly Report" or at www.bdm.pl

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The report constitutes an investment research within the meaning of art. 36 §1 of Commission Delegated Regulation (EU) 2017/565.

The report has been prepared by Dom Maklerski BDM S.A. (hereinafter BDM S.A.) within the Exchange Analytical Coverage Support Programme (<https://www.gpw.pl/gpwpa>). BDM S.A. is a party to the „Agreement on the provision of analytical report services” concluded with the Warsaw Stock Exchange Company („GPW”), on the basis of which BDM provides services of analytical coverage of the Issuer for the term of the Agreement. Under the agreement BDM obtains remuneration from GPW. All materials prepared by BDM within the framework of co-operation are available at <https://www.bdm.pl/program-wsparcia-pokrycia-analitycznego-gpw>

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The prices of the financial instruments listed in the document have been taken from the real-time pricing as provided by Bloomberg. Data concerning financial instrument prices used in the report could be loaded to 24 hours before the moment of completing the report.

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- The issuer does not hold shares exceeding 5 % of the BDM issued share capital,
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